

**Summary Report  
Management Seminars**

**Responsibility Center System  
Training Program**

**Bank for Agriculture and Agricultural Cooperatives  
(BAAC)**

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## **I. INTRODUCTION**

1. This final report summarizes the results of the four management seminars conducted under the Responsibility Center (RC) System Training Program provided by Development Alternatives, Inc. (DAI) for Bank for Agriculture and Agricultural Cooperatives (BAAC). This training program was sponsored by United States Agency for International Development (USAID).

2. This final report is divided into five sections:

- (i) Introduction
- (ii) Overview of seminar agenda
- (iii) Assessment of participant performance
- (iv) Summary of seminar results
- (v) Summary of seminar evaluations
- (vi) Recommendations

## **II. OVERVIEW OF SEMINAR AGENDA**

3. BAAC management level staff, three DAI trainers, and key members of BAAC's responsibility center working group attended the four management seminars.

4. The seminars provided an overview of the RC approach and how it can be used to support BAAC's efforts to improve its performance, improve its competitive position, and achieve its mandated social goals. DAI trainers encouraged discussion among participants on the main issues and challenges involved in the formulation and implementation of a RC system at BAAC.

5. The seminar was conducted using a combination of lecture sessions, group discussions, individual and group case studies, and group presentations. The instructors engaged the participants in group discussions to solicit their ideas and feedback regarding the implementation of a RC system for BAAC. During these discussions, participants raised important issues regarding the implementation of a RC system at BAAC. Participant feedback is summarized in this report.

6. The seminar covered the following topics:

- (i) Current trends in Thailand financial sector and the implications for BAAC
- (ii) Overview of the RC concept
- (iii) Steps involved in implementing a RC system
- (iv) Cost allocation and transfer pricing
- (v) Case study: Cost allocation for BAAC's RC system
- (vi) Development issues pertaining to BAAC's RC system
- (vii) Case study: Using the RC approach to improve performance
- (viii) Example of RC implementation based on experiences of the instructor
- (ix) Role of the RC manager – common challenges and key success factors

### III. ASSESSMENT OF PARTICIPANT PERFORMANCE

7. A high level of group discussion and interaction characterized all four seminars. This high level of participation made the seminars constructive and helped participants more fully understand the issues involved in implementing a RC system at BAAC.

8. The table below summarizes the instructor team's opinion regarding the level of understanding of key topics before and after the seminar.

Key Topics/	Level of Understanding					
	Before			After		
	Basic	Inter-mediate	Advanced	Basic	Inter-mediate	Advanced
Financial sector trends			X			X
Benefits of RC approach		X				X
Establishing mission statement		X			X	
Effective performance measures	X					X
Establishing performance objectives		X				X
Types of responsibility centers			X			X
Cost allocation and transfer pricing		X				X
Two stage cost allocation	X					X
Incentive and reward systems		X				X
Key success factors for RC implementation			X			X
Financial analysis and accounting	X				X	

9. The main areas of difficulty were also the most controversial. These included defining the appropriate mission for BAAC and determining appropriate performance measures for BAAC that meet the three attributes of effective performance measures. It was also noted that participants' level of knowledge in accounting and bank financial analysis varied widely.

#### IV. SUMMARY OF SEMINAR RESULTS

##### A. Important Trends

10. During the first part of the seminar the participants were engaged in a discussion to identify trends in the financial sector that will have an impact on BAAC. Participants identified the following trends:

Trends
BAAC to be subject to BOT regulatory and supervisory regime
Consolidation of financial institutions
Increasing competition in rural markets
Increasing self sustainability of farmers
Increasing non farm activity in rural sector
Increasing sophistication of customers
Use of advanced information technology
Centralization of operations
Increasing use of electronic payments
Increasing use of modern management techniques in financial institutions
Increasing awareness of BAAC by the public
Declining support from the Government
Narrowing margins

## B. Priority Areas for Improvement at BAAC

11. Participants were asked to identify changes that BAAC needs to make to improve performance and respond more effectively to the trends affecting rural development and the financial sector. The participants offered the following recommendations:

Recommended Improvements	Group 1	Group 2	Group 3	Group 4	Totals
Improve information technology and related expertise	X	X	X	X	4
Increase focus on responding to customer needs	X	X	X	X	4
Reduce non-performing loans and improve credit quality	X	X	X		3
Improve human resource management	X	X	X		3
Delegate more authority and responsibility		X		X	2
Improve efficiency and reduce bureaucracy	X				1
Improve internal communication	X				1
Improve allocation of information technology resources	X				1
Improve matching staff skills with job positions	X				1
Improve credit risk management and lending skills		X			1
Implement performance based compensation			X		1
Improve organizational structure			X		1
Improve staff skills to serve rural areas more effectively			X		1
Improve risk management				X	1
Improve public relations and image				X	1
Improve internal audit				X	1
Increase fee based income				X	1
Simplify policies and procedures				X	1
Change organizational culture to be more proactive				X	1

12. The instructors pointed out that delegation of responsibility and performance based compensation are essential components of an RC system and that the RC system will create the incentives for implementing the other recommendations.

### C. BAAC Mission

13. The overall mission of BAAC must be established as a prerequisite to establishing performance measures and objectives for the RC system. Therefore, the instructors led a group discussion during which the participants developed a consensus regarding the appropriate mission of BAAC. The suggested mission statements for BAAC are categorized below:

Recommended Mission Statements	Group 1	Group 2	Group 3	Group 4	Totals
To improve quality of life of rural households	12	12	12	7	43
To maximize profitability and achieve financial sustainability	7	7	5	1	20
To function as a rural development bank			2	2	4
To maximize outreach	1		1		2
To restore the natural environment			1		1
To achieve a good corporate governance				1	1

14. As in the case of the Executive Seminar, the participants indicated that profitability and financial sustainability are not the sole objectives of BAAC and that BAAC must also promote the rural development policies of the Government. Many participants took the position that maximizing profitability and achieving financial sustainability for BAAC conflict with the goal of helping rural households.

15. The instructors highlighted the fact that maximizing profitability and achieving financial sustainability for BAAC does not conflict with helping the rural households. Rather, to help the greatest number of rural households in the long-term, BAAC must become financially sustainable. And, to become financially sustainable, BAAC must be profitable. The instructors provided financial explanations and drew on examples in other countries, such as Bank Rakyat Indonesia (BRI) to support this point.

16. BAAC financial sustainability is defined as when BAAC generates sufficient internal funding that it no longer needs to depend on funding from the Government. Rural household sustainability is defined as a rural household that generates sufficient income to cover all living expenses and to service its debt, if any, on time.

17. The consensus reached during the four seminars is that the mission of BAAC is:

"To provide financial services to rural households to help them achieve self sustainability and improved quality of life, and concurrently achieve financial sustainability for BAAC in the long term".



#### **D. Performance Measures**

18. The instructors explained how the RC system and the establishment of effective performance measures and objectives could support the achievement of BAAC mission and the implementation of the priority areas for improvement identified by the participants.

19. The participants learned the need to establish effective performance measures and performance objectives at both the overall organizational level and departmental levels. They understood that the performance measures for each responsibility center must be supportive and reinforcing to BAAC's overall performance measures and objectives. In addition, they learned that RC system performance measures must be:

- (i) Easy to understand
- (ii) Easy to measure
- (iii) Controllable by the responsibility center managers

20. Participants were then divided into groups and each group was instructed to specify the optimal RC system performance measure for BAAC. The recommended performance measures included:

<b>Recommended Performance Measures</b>
Return on assets (ROA)
Return on equity (ROE)
Net income
Capital adequacy
Non performing loans (NPLs)
Customer satisfaction
Quality of life of farmers and rural households
Farmer and rural household income and savings

21. The instructors explained that ROE, profitability, customer satisfaction, and non-performing loan measures were already embodied in ROA and therefore redundant. A minimum level of capital adequacy is required under prudential regulations.

22. Next, the group discussed how to capture the quality of life of rural households in a performance measure. The group had difficulty determining appropriate performance measures that meet the three attributes of effective RC system performance measures. The instructors explained that two common approaches for analyzing the impact of institutional programs on the quality of life of rural households are direct impact analysis and the use of proxy indicators. The

former is complex and requires considerable resources, while the latter is less accurate but easier to use.

23. Several participants pointed out that various organizations conduct direct impact analysis by collecting data that serve as indicators of rural household and farmer welfare. However, direct impact measures do not have the three attributes of effective RC system performance measures. In addition, the welfare of rural households and farmers is dependent on many factors, such as the weather, that are not under the control of BAAC. Therefore, the participants were encouraged to use proxy impact measures and think of improving the quality of life of rural households and farmers as an overall mission that BAAC contributes to, but is not solely responsible for.

24. After further discussion, the participants reached the same consensus regarding performance measures that was reached during the Executives Seminar. The participants agreed that an optimal set of overall performance measures for BAAC is:

- (i) Return on assets (ROA).
- (ii) Cost efficiency (non-interest expenses divided by assets).
- (iii) Savings mobilization rate (savings deposits divided by total funding).
- (iv) Accessibility rate (number of BAAC customer households divided by the total number of Thai farm households).

25. Participants also raised several important issues pertaining to BAAC that potentially complicate the implementation of effective performance measures. These include:

- (i) BAAC is given special projects by the Government, and each special project might have objectives that are not be consistent with the RC system performance measures.
- (ii) BAAC borrowers do not always keep their deposits with BAAC. This makes deposit mobilization a potentially less effective measure of rural household and farmer welfare. In addition, the reluctance of farmers to place their savings with BAAC should be analyzed in an effort to develop strategies for overcoming this reluctance.
- (iii) Borrowers take loans from moneylenders to repay BAAC loans. Therefore, measuring trends in non-performing loans might be a potentially less effective indicator of rural household and farmer welfare.

## E. Designating Cost Centers and Profit Centers

26. During the session on designating cost centers and profit centers within BAAC, the participants disagreed with some of the designations determined during the departmental interviews previously conducted by the instructors. Based on participant feedback, the following designations were made:

Responsibility Center	Profit Center	Cost Center	Manager	Performance Measures
Office of the President & EVPs	X	X	President	ROA, AR, SMR, CE
Policy & Planning Dept.		X	SVP	CE
Program & Budget Div.		X	Director	CE
Monitoring & Evaluation Div.		X	Director	CE
Public Relations Div.		X	Director	CE
Research Div.		X	Director	CE
Secretarial Div.		X	Director	CE
Audit & Inspection Dept.		X	SVP	CE
Audit & Inspection #1 Div.		X	Director	CE
Audit & Inspection #2 Div.		X	Director	CE
Audit & Inspection #3 Div.		X	Director	CE
Audit & Inspection #4 Div.		X	Director	CE
Audit Planning & Development Div.		X	Director	CE
Computer Audit Div.		X	Director	CE
Government Secured Loan Dept.		X	SVP	CE
Government Secured Loan Div.		X	Director	CE
Office of Land Fund		X	Director	CE
Office of Nat'l Ag Credit Admin. Brd		X	Director	CE
Individual Farmer Loan Dept.		X	SVP	CE
Farmer Loan Div.		X	Director	CE
Rural & Environmental Loan Div.		X	Director	CE
Loan Planning Div.		X	Director	CE
Farmer Institution Loan Dept.		X	SVP	CE
Farmer Institution Loan Div.		X	Director	CE
Farmer Institution Business Promotion Div.		X	Director	CE
Financial Management Dept.		X	SVP	CE
Fund Management Div.		X	Director	CE
Financial Business Division		X	Director	CE
Banking Dept.		X	SVP	CE
Banking Div.		X	Director	CE
Cash & Liquidity Management Div.		X	Director	CE
Savings Promotion Div.		X	Director	CE
Office of Islamic Bank Fund		X	Director	CE
Organization & Methods Dept.		X	SVP	CE

Organization & Methods Div.		X	Director	CE
System Innovation Div.		X	Director	CE
Information Technology Dept.		X	SVP	CE
Network Div.		X	Director	CE
Computer System Div.		X	Director	CE
Application Software Div.		X	Director	CE
Information System Div.		X	Director	CE
Accounting Dept.		X	SVP	CE
Asset Accounting Div.		X	Director	CE
Account Processing Div.		X	Director	CE
Management Accounting Div.		X	Director	CE
General Administration Dept.		X	SVP	CE
General Affairs Div.		X	Director	CE
Legal Affairs Div.		X	Director	CE
Premises Management Div.		X	Director	CE
General Services Div.		X	Director	CE
Human Resource Management Dept.		X	SVP	CE
Human Resource Planning Div.		X	Director	CE
Personnel Div.		X	Director	CE
Welfare & Labor Relations Div.		X	Director	CE
Human Resource Development Dept.		X	SVP	CE
Human Resource Development Planning Div.		X	Director	CE
Training Div.		X	Director	CE
Branch Administration Dept.		X	SVP	CE
Branch Administration 1 Div.		X	Director	CE
Branch Administration 2 Div.		X	Director	CE
Branch Administration 3 Div.		X	Director	CE
Branch Administration 4 Div.		X	Director	CE
Branch General Administration Div.		X	Director	CE
Loan Quality Development Div.		X	Director	CE
BAAC 72 Provincial Offices	X		Director	ROA, AR, SMR
BAAC 432 Main Branches	X		Manager	ROA, AR, SMR
BAAC 71 Mini Branches	X		Ass't Manager	ROA, AR, SMR
BAAC 84 Sub Branches	X		Ass't Manager	ROA, AR, SMR
BAAC 803 Field Offices	X		Chief	ROA, AR, SMR
BAAC Business Development Officers	X		BDO	ROA, AR, SMR

27. Since the Office of the President and EVPs is responsible for the overall performance of the bank, this unit was classified as both a profit and a cost center. The cost center designation refers to the administrative expenses of running the office. The other departments that caused debate were the Loan Departments, the Branch Administration Department, and the Financial

Management Department. These departments were originally designated as profit centers based on the departmental interviews conducted by the instructors.

28. The two Loan Departments (Individual Farmer and Farmer Institution) have responsibility for approving loans above the credit approval authorities of provincial office managers. While the instructors assumed that the departments had autonomy to approve or reject credit requests, participants informed the instructors that only pre-screen loans were sent to the departments and as such the branches and hence the bank had already decided to accept the credit risk. The Loan Departments act more as product and customer support units to the branches.

29. In a similar manner, the Branch Administration Department Divisions act in a support role to the branches in their jurisdiction. The Loan Quality Development Division, while it could be seen as a profit center if its recovery efforts against non-performing loans are successful, is viewed within BAAC as a supporting unit to the branches lending activities.

30. The instructors assumed the Financial Management Department could be considered a profit center if its investment activities produce a return greater than the bank's cost of funds. The intercompany profits the department could achieve acting as a clearinghouse for the transfer of deposits between excess and deficit-deposit branches, however, would not justify labeling the department as a profit center. Again, participants stressed that the department acts as a supporting unit within the bank and should be considered a cost center.

31. Based on their revenue producing activities, all branches and their aggregations up to the provincial level were designated as profit centers.

## **F. Cost Allocation and Transfer Pricing**

32. During the two case studies, participants developed a detailed understanding of the complexities and challenges posed by cost allocation and transfer pricing. The case studies demonstrated the process of selecting cost allocation bases, applying two-stage cost allocation, and establishing transfer-pricing schemes for deposits and loans. In addition, the advantages and disadvantages of full allocation and partial allocation of cost center expenses were discussed.

33. The rationale for cost allocation under a responsibility center system is to accurately assign costs to the users that cause the expenditures. The overarching objective is to sensitize employees to costs and direct their energies toward reducing costs across the whole organization. As actual usage is often difficult to determine, the instructors presented three methodologies for assigning costs from cost centers to other cost and profit centers.

34. The cost allocation methods or bases presented included an organization-wide cost allocation base and department cost allocation bases. As BAAC's cost structure is quite complex, the instructors emphasized that using the department cost allocation bases was preferable. The base chosen must reflect the activities of the cost center providing services to other units within the organization. Participants were reminded to ask the following question when choosing a cost allocation base – is it “*fair*” and “*reasonable*” to the receiving responsibility center unit.

35. As an example, if the General Administration Department is incurring the cost for the cleaning of the whole bank, the cost allocation base for this item might be “floor space occupied” by each responsibility center. Other cost allocation bases presented were: number of employees, IT storage usage, amount of loans, amount of deposits, and number of transactions. Participants were asked to brainstorm other appropriate cost allocation bases and department overhead rates for BAAC departments. To reinforce the concept, participants completed an exercise that involved the allocation of BAAC's electricity costs.

36. The concept of activity based costing (ABC) was also presented to participants. The instructors informed participants that ABC is a powerful tool in determining activity, product, service, and customer profitability. It can be used in tandem with cost allocation bases to track geographic or unit profitability.

37. Instructors explained the use of transfer pricing as a means to encourage responsibility center managers to achieve the bank's overall performance objectives. Transfer prices should be established to produce the intended behavioral change among decision makers. The instructors focused on the funds transfer price for deposits between deposit-deficit and deposit-excess branches. Examples were given where a fund transfer price was established above, at, and below a bank's cost of funds. Under each of these scenarios, two branches' income statements were compared and the expected behavior of branch managers under each scenario was discussed. In addition, instructors explained that transfer prices could be established at market prices, negotiated prices, or at actual costs.

38. Participants were informed that transfer price methodology could be applied to a wide variety of services cost centers provide to one another and to profit centers. For example, legal services provided to branches can be charged internally at a lawyer's hourly rate. IT application services can be charged under a licensing fee arrangement. However, the purpose of

developing more complex transfer price arrangements should be to lower the organization's actual overall expenditures.

39. Finally, participants were given a comprehensive cost allocation case study that used actual BAAC costs for two cost center departments (a total of eight divisions). The departments were the General Administration Department and the Information Technology Department. Cost data was presented in the organization's FMIS format. Participants were asked to first split each division's expenditures into direct and indirect costs. Indirect costs were then to be allocated to other cost centers and finally to profit centers. Participants had to choose appropriate cost allocation bases and defend their choices to the other seminar participants. Instructors gave constructive comments.

## **G. Improving Performance**

40. A comprehensive case study was used to illustrate the RC concept and demonstrate how the RC system is used to improve performance. The case study was based on a set of financial statements for a hypothetical financial institution with three branches. Participants were provided with the balance sheet of overall institution and each responsibility center, income statement of overall institution and each responsibility center, non-interest expense breakdown for overall institution and each responsibility center, and cost allocation bases.

41. The case study required the participants to perform the following tasks:

- (i) Calculate ratios for the institution
- (ii) Perform peer group analysis
- (iii) Identify potential areas for improvement
- (iv) Designate cost centers and profit centers
- (v) Determine loan and deposit transfer pricing
- (vi) Determine cost allocation methodology
- (vii) Allocate costs
- (viii) Complete the financial statements for each responsibility center
- (ix) Calculate performance measures for the overall institution
- (x) Calculate performance measures for each responsibility center
- (xi) Analyze the performance of each responsibility center
- (xii) Identify areas for improvement

42. The participants correctly identified the causes of poor performance for one of the branches and recommended the necessary changes needed to improve performance. By working through the case study, participants gained a better understanding of how the RC approach is used to improve the performance of financial institutions like BAAC.

43. Although the participants were able to complete most of the tasks without assistance, it was apparent that the level of accounting and financial analysis knowledge varied widely.



## V. SUMMARY OF SEMINAR EVALUATIONS

44. The Core Business Staff Development Section evaluated the training seminars to determine whether BAAC's training objectives were achieved and to provide feedback to further improve the course. Participants were randomly interviewed by the Core Business Development staff and were asked to rate various aspects of the seminar and instructors using a seminar evaluation form.

45. Overall, the seminar series received a high rating. Participants thought the course was useful and gained the confidence to explain the RC concept to other staff. Training documents, training media, and the translator were considered appropriate. Participants thought the lecturers were knowledgeable, could answer questions clearly, and effectively transferred knowledge.

### A. Summary of Ratings

46. The seminars were rated using the following scale:

0.00 – 1.00	Needs Improvement
1.01 – 2.00	Low
2.01 – 3.00	Medium
3.01 – 4.00	High

47. Ratings for the training course are summarized in the following table:

Issue	Group 1		Group 2		Group 3		Group 4		Average	
	Avg.	Rating	Avg.	Rating	Avg.	Rating	Avg.	Rating	Avg.	Rating
1. Usefulness of the course content	3.79	High	3.48	High	3.63	High	3.74	High	3.66	High
2. Appropriateness of the case studies	3.22	High	3.16	High	3.32	High	3.48	High	3.30	High
3. Confidence of participants to explain the RC concept to their staff after the training course	3.21	High	3.23	High	3.39	High	3.27	High	3.28	High
4. Appropriateness of training documents	3.47	High	3.27	High	3.47	High	3.29	High	3.38	High
5. Appropriateness of training media	3.74	High	3.40	High	3.45	High	3.23	High	3.46	High
6. Appropriateness of the translator	3.44	High	3.62	High	3.75	High	3.71	High	3.63	High
7. Overall usefulness of training course	3.50	High	3.45	High	3.61	High	3.52	High	3.52	High
Total	3.48	High	3.37	High	3.52	High	3.46	High	3.46	High

48. Ratings for the instructors are summarized in the following table:

Issue	Class 1		Class 2		Class 3		Class 4	
	Arun Hsu		Arun Hsu		Arun Hsu Rubin Jessop		Arun Hsu Rubin Jessop	
	Avg.	Rating	Avg.	Rating	Avg.	Rating	Avg.	Rating
1. Knowledge of the subject	3.79	High	3.64	High	3.93 3.84	High High	3.82 3.78	High High
2. Clearness in answering questions	3.32	High	3.27	High	3.61 3.52	High High	3.53 3.53	High High
3. Ability to transfer knowledge	3.53	High	3.38	High	3.81 3.59	High High	3.53 3.48	High High
4. Appropriateness of participation technique	3.63	High	3.31	High	3.55 3.48	High High	3.50 3.56	High High
5. Overall satisfaction with the lecturers	3.32	High	3.50	High	3.68 3.64	High High	3.57 3.46	High High
Total	3.52	High	3.42	High	3.72 3.61	High High	3.59 3.56	High High

## B. Summary of Comments

49. Participants were asked to provide comments on any aspect of the seminars. The comments are summarized in the following table:

Comments
The presentation had good sequence and linkages
Some of the material was not specific to BAAC's situation
More examples from other institutions should have been provided
Discussions sometimes veered from the main topic
Training materials should be distributed before the class
Sometimes the pace was too fast
More allowance should be made due to the varied knowledge of the participants
More time should be devoted to the case studies
Less time should be spent on financial sector trends
More time should be spent on financial sector trends
Less time should be spent on discussing theory and more time on solving problems in BAAC

Thai experts should be used as instructors
There should be examples of work allocation and analysis
Change management should be included as a topic

## C. Comments on Implementing the RC System in BAAC

50. Participants were asked to provide comments regarding the implementation of the RC system in BAAC. The following are the unedited comments provided by the participants in each class.

### 1. Class 1

- (i) BAAC is partially using the RC system. Now we are more prepared in terms of IT and staff knowledge so we should implement the RC system as soon as possible.
- (ii) It is believed that BAAC would have more efficiency with the RC system. The RC system will help the staff to realize their contribution to the bank's profit.
- (iii) BAAC should consider the measures according to the bank's objective. They should be clear and fair such as the Balance Scored Card system or the Key Performance Indicators (KPIs).
- (iv) There must be a lot of adjustment because BAAC is different from other financial institutions. The negative impact of the RC system should be improved and the approach should be adjusted to suit BAAC. Comparative study of other organizations similar to BAAC should be taken and adapted for BAAC.
- (v) The approach should be adjusted to be in line with what we want to measure, which is whether BAAC achieves its objective or not.
- (vi) The RC system may make each unit look only at its own rather the overall picture. More understanding is required.
- (vii) The responsible unit should prepare a clear RC implementation plan.
- (viii) RC system should seriously and continuously be implemented in BAAC immediately. There should be a pilot project that is regularly evaluated and we should learn from this.
- (ix) It must be clarified which unit is a Profit center or Cost center.
- (x) The policy on RC must be clear and continuous. There should be a measure to deal with problems. For example, the branch office does not accept the cost allocated by the HO; and branch offices request for HO restructuring, manpower reduction or work system improvement. BAAC should be prepared to solve those problems in advance.

- (xi) It should be linked to the current bank's performance evaluation.
- (xii) Only some costs should be allocated.
- (xiii) It should be implemented only at Division and Branch level, not at the Ampur level or within HO.
- (xiv) There should be a specific unit especially responsible for RC system.
- (xv) If RC system is implemented in all units of BAAC, staff will be too busy.

## **2. Class 2**

- (i) RC system should be implemented only on some issues in the beginning and more issues are added later.
- (ii) IT and computer system should be ready.
- (iii) It is very challenging. BAAC will benefit from the overall point of view but each RC will argue on cost allocation and Profit center will think it is not fair. The incentive to implement RC system is still not clear.
- (iv) The accounting system should be ready first so that the information can be compiled easily when the RC system is implemented. The suitable system is the Cost Accounting.
- (v) It would benefit the bank if it is implemented together with other tools such as PMS. There should be a measure to adjust the staff's attitude to focus on service provision and the overall organization's benefit.
- (vi) It would be difficult to implement the RC system. Each unit's duties must be understood and the benefit to the each RC must be clear so that cost allocation is accepted. BAAC has never done this before so it will take some time to understand. Training is important before implementing RC.
- (vii) RC should be implemented after the restructuring where redundant and the organization's size is reduced. It must be accepted between the Cost Centers and the Profit Centers first. RC should not be implemented while BAAC has too many cost centers.
- (viii) The concept can be implemented on some income and expenses first so that units in the HO can realize the impact to BAAC. This will effect the management adjustment in the HO. (It is clearer to implement the concept in branches.)
- (ix) The RC concept must be applied appropriately focusing on the objective of BAAC. RC is only an approach to support the main principle of BAAC. The success depends on the designers (or implementers to BAAC).
- (x) The RC manager should have quite an authority. In order that evaluation is fair, it should be discussed which indicators should be used.

- (xi) BAAC hired T.N. for the whole RC system but it lacks provision of knowledge and understanding of RC. Related management must take care of this.

### **3. Class 3**

- (i) Implementing of RC must be gradually based on understanding and acceptance so that it receives good cooperation and appropriate adjustment. It should be implemented in units that are ready with a result that can be measured clearly as an example first then it can be extended to other units later.
- (ii) There must be fairness, clear direction and controllable rewards.
- (iii) Implementing the RC system should be in steps.
- (iv) Calculate costs precisely.
- (v) Direct and indirect cost should be agreed clearly.
- (vi) Transfer indirect cost first and direct cost later without an immediate evaluation.
- (vii) RC system is good for modern management but it must be adjusted to suit the organization's culture. The success factor is the consciousness of everybody in the organization on efficient utilization of resources. (RC is only a tool.)
- (viii) It will be complicated and there will be more operating expenses.
- (ix) We must be more careful on expenses, capital and income.
- (x) It is important that management give us confidence that BAAC will seriously implement the RC system.
- (xi) We must be aware of competition without concerning to the overall organization's benefit. We have to focus on the customers (farmers) first to create integrity of the work and the people because it may conflict to the RC concept, which concerns profit. Finally how can BAAC survive?
- (xii) RC system should be implemented but there must be an efficient reporting and compiling system by computers.
- (xiii) RC is more suitable to measure performance of the parent company and the subsidiaries, which is different from BAAC that only the overall performance should be measured.

### **4. Class 4**

- (i) RC should be implemented as soon as possible but price transfer should be agreed to prevent conflicts in the organization and it should be fair.
- (ii) There should be a pilot project starting from the easy one.

- (iii) It may conflict with the bank's policy so we should adjust the RC system to support rural development because BAAC has a vision to upgrade the quality of life of the rural people rather than to manage profit.
- (iv) Management behavior must be adjusted.
- (v) Rewarding system must be changed.
- (vi) Knowledge and understanding should be provided to staff.

## **VI. RECOMMENDATIONS**

51. The implementation of an RC system will support BAAC's efforts to achieve its financial and development goals in an increasingly competitive environment. In addition, under the proposed changes to banking laws, BOT might assume a larger role in supervising specialized financial institutions such as BAAC. Therefore, BAAC must prepare for the more stringent prudential regulation and supervisory standards that it could be increasingly subject to. The implementation of an RC system will support BAAC's efforts to prepare for these changes.

52. The following list of recommendations for implementation of a RC system was formulated based on an assessment of BAAC's situation, participant feedback, and the experience of the instructors.

### **A. Accounting Standards**

53. BAAC must adopt the accounting and disclosure standards consistent with international best practices and consistent with the standards applied to other financial institutions operating in Thailand. The accuracy, fairness, consistency, and transparency of financial reporting in accordance with standards are essential for the integrity of a RC system. This will be required in the future if BAAC becomes subject to BOT supervision and is a necessary prerequisite for successful implementation of a RC system.

### **B. Risk Management**

54. BAAC, like other financial institutions, must adopt international best practices in risk management to improve financial performance, remain competitive, and respond to the trend towards risk focused supervision. An RC system and international standard risk management practices are consistent and cross reinforcing.

### **C. Focus on Customer Needs**

55. BAAC's must monitor the needs of its rural customer base and adjust its product and service offerings accordingly. Rural households are increasingly turning to non-farm activities to generate income. To remain competitive, BAAC must be ready to serve the changing needs of the rural market. The RC system can support this objective through performance measures that provide an additional incentive for BAAC senior management and branch managers to become more customer focused.

### **D. Senior Management Commitment and Communication**

56. BAAC needs a strong commitment from its senior management to successfully implement a RC system. The employees of BAAC will be willing to make the changes necessary for the implementation of the RC system only if senior management clearly demonstrates their commitment. An important means for demonstrating commitment is through constant two-way communication between the different levels of management. Senior management must be willing quickly address issues that will arise during the planning and implementation of the RC system.

## **E. Mid Level Management Participation**

57. Department and division managers must be included in the planning and implementation of the RC system. BAAC senior management has already taken the positive step of arranging the series of seminars on the RC concept for department and division managers. In addition, the working group for RC system implementation should include a cross section of managers to ensure the support of all areas of BAAC. The department and division managers can provide very useful information that must be considered during the planning and implementation of the RC system.

## **F. Training Programs**

58. To ensure the success of the RC system, BAAC must implement a training program for all employees to explain why BAAC is implementing an RC system and the intended benefits for both the institution and employees. RC managers should attend a comprehensive training program on the RC concept, performance measures and objectives, incentives, and using FMIS generated financial reports to monitor progress towards performance objectives. In addition, a schedule should be established whereby each RC manager meets with their supervisor on a regular basis to review progress and establish new objectives. These meetings can also be used as part of the initial training during the roll out of the RC system. Finally, existing information distribution channels such as circulars should be used to educate employees on the RC system.

## **G. Delegation of Authority**

59. Because the RC system will hold RC managers responsible for achieving performance objectives, the RC managers must have sufficient authority to make decisions that will allow them to achieve the performance objectives. The main issue facing BAAC in this regard is responsibility manager authority over staffing levels. Currently, staffing decisions are not under the control of responsibility center managers. Because staff costs are the major non-interest expense item in a financial institution, this poses a significant obstacle for implementing an effective RC system at BAAC. BAAC must address this issue.

## **H. Performance Based Compensation**

60. An essential component of an effective RC system is a performance based compensation system that rewards responsibility managers for achieving or surpassing performance objectives. Therefore, the use of the Government's civil service pay scale prevents another significant obstacle to the full implementation of a RC system at BAAC. S where good performance must be rewarded. BAAC must address this issue.

## **I. Simplicity and Pilot Testing**

61. BAAC must focus on simplicity in the initial implementation of its RC system. Although BAAC has the technical capacity to implement a very complex system via FMIS, care must be taken to start at a very basic level, with a minimal set of performance measures, and educate all staff thoroughly on the RC concept. In addition, it is expected that adjustments will needed after the RC system is implemented. Keeping the system simple in the beginning will facilitate the process of adjusting and optimizing the system. After the RC system has been operational for a while, enhancements can be implemented on a step-by-step basis. In addition, consideration should be given to pilot testing the RC system in select branches and departments before



implementing the RC system throughout the institution. Once the system is operating smoothly in the pilot branches and/or departments, it can be implemented in another group of branches and/or departments until all branches and departments are operational.